

# 20<sup>TH</sup> Century Economic Development in Australia

E. A. Boehm

THIRD EDITION



# Twentieth Century Economic Development in Australia

Third edition

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# Abbreviations

ABARE	Australian Bureau of Agricultural and Resource Economics
ABS	Australian Bureau of Statistics
ACAC	Australian Conciliation and Arbitration Commission
ACTU	Australian Council of Trade Unions
AECC	Australian Export Commodity Classification
AGPS	Australian Government Publishing Service
AIDC	Australian Industry Development Corporation
AIP	Australian Institute of Petroleum
AIRC	Australian Industrial Relations Commission
ALP	Australian Labor Party
ARDB	Australian Resources Development Bank
ASEAN	Association of South East Asian Nations
ASIC	Australian Standard Industrial Classification
AWIC	Australian Wool Industry Conference
CAI	Confederation of Australian Industry
CBCS	Commonwealth Bureau of Census and Statistics
CEDA	Committee for Economic Development of Australia
CGS	Commonwealth Government Securities
CIBCR	Center for International Business Cycle Research
cif	cost, insurance and freight
CPI	consumer price index
CSIRO	Commonwealth Scientific and Industrial Research Organization
EC	European Community
EEC	European Economic Community
EFIC	Export Finance and Insurance Corporation
EMDG	Export Market Development Grant
EPAC	Economic Planning Advisory Council
fob	free on board
GATT	General Agreement on Tariffs and Trade
GBE	government business enterprise
GDP	gross domestic product
GFCE	gross fixed capital expenditure
GNP	gross national product
IAC	Industries Assistance Commission
IAESR	Institute of Applied Economic and Social Research
IC	Industry Commission
ICA	international commodity agreement
IWS	International Wool Secretariat
LGS	liquid assets and government securities
MFP	multifactor productivity
NBER	National Bureau of Economic Research
NCD	non-callable deposits
NICs	newly industrialized countries
NRC	National Rail Corporation

OECD	Organization for Economic Co-operation and Development
PAR	prime asset ratio
PIM	perpetual inventory method
PPP	purchasing power parity
PJT	Prices Justification Tribunal
PSA	Prices Surveillance Authority
R&D	research and development
RBA	Reserve Bank of Australia
SRD	statutory reserve deposits
TFP	total factor productivity
TPC	Trade Practices Commission
UNCTAD	United Nations Conferences on Trade and Development
VEA	voluntary enterprise agreements

# Preface to first edition

The objective of this book is to provide, for students and the general reader, a critical review of the growth characteristics and performance of the Australian economy. Attention is concentrated on Australia's growth record and cyclical fluctuations, the key ingredients of growth and their interrelationships, and institutional changes. These changes have been made to help to realize the objectives of economic policy, for example achievement of the desired rate of economic growth at full employment with rising living standards. The recent growth performance of an economy, the ongoing character of its development, its current and future strengths and weaknesses, and the requirements of economic policy can be clarified when viewed in historical perspective.

A book of such limited size as this on such a vast and interesting subject may suffer from restrictions of space on any one matter. Selected references are given in some of the footnotes to sources where particular aspects are discussed more fully. Suggestions for further reading are also provided at the end of each chapter.

I am most grateful to a number of people who have assisted me in the writing of this book. I particularly wish to thank: Dr D. S. Ironmonger and Ms Daina Bremanis for assistance in computer programming; Ms Joyce Wood for her expert drawing of the charts; and Professor W. Prest, Professor G. Blainey, and Mr A. H. Boxer for reading and supplying helpful comments on parts of the book.

I must especially acknowledge the many valuable suggestions and criticisms of Mr A. Gregory on the whole draft of the book. I am much indebted to Professor J. E. Isaac for valuable advice in planning the book and very helpful criticisms on the whole manuscript. I also must thank a number of students and others in public life with whom I have had the benefit of discussing, and learning more about, some of the issues raised in this book. Finally, to my wife, Dorothy, I owe a special debt of gratitude for her continued help during the writing of this book.

*E. A. Boehm*  
*June 1970*

# Preface to second edition

Every chapter has undergone considerable revision and additions in the process of updating and reassessing of economic trends. The greater part of the revision was completed before statistical data for 1976–77 became available. It now appears that the growth of the Australian economy, after proceeding very slowly during 1974–75 and 1975–76, resumed in 1976–77 with productivity (as measured by real gross domestic product per worker) rising by about 2.5 per cent. However, the prospect is for slower growth than in the past. By contrast, when the first edition of this book was written in the late 1960s, it was against the background of a more optimistic outlook following strong economic growth for over a quarter of a century.

In Chapter 2 the trade cycle since the Second World War has been re-examined. In Chapters 2 and 3 the significant slowdown in population growth (from both natural increase and net migration) has received special attention, and in Chapters 2 and 5 the sharp fall in recent years in capital inflow is reviewed. Aspects of the recent decline in importance of the manufacturing sector are discussed mainly in parts of Chapters 3, 5 and 6. In Chapter 6 the sections on the tariff, import replacement, and manufactured exports have been considerably rewritten and consideration is given to the case for structural readjustments following the transformation of Australia's balance of payments by the rapid rise in mineral exports. The sections in Chapter 7 on Commonwealth–state financial relations and wage determination have also been largely rewritten. Chapter 8 is expanded through a more detailed examination of income distribution with an added discussion on wealth distribution, and a more detailed analysis of poverty. Much of the final chapter has been rewritten, especially in view of the recent serious problems of inflation and unemployment. In several chapters certain aspects are discussed more fully, including in particular in Chapter 4, the impact of synthetics on wool, and the marketing arrangements for and promotion of wool; and in Chapter 5, the degree of foreign ownership and control of several sectors of the economy, and the recently revised guidelines towards overseas borrowing. Sections have been added in Chapter 7 on 'the new federalism' and in Chapter 9 on 'should economic growth be limited?'.

I am most grateful to a number of people who have assisted me in the revision of this book, especially Professor R. H. Snape for his very helpful criticisms and suggestions on the whole manuscript. I also wish to thank Professor R. F.

Henderson, Dr J. E. Isaac, and Mr P. B. Wade for valuable comments on parts of the book; Mrs Daina McDonald for again cheerfully helping with computer programming; and Mrs Lois Payne for her efficient typing. Finally, I again owe a special thanks to my wife for her valuable secretarial assistance.

*E. A. Boehm*

*April 1978*

# Preface to third edition

The original chapter titles have been retained, but each chapter has been completely revised and updated in respect to both quantitative and qualitative evidence. It has been possible to broaden and enrich the analysis of Australia's economic development and structural changes in the twentieth century not only by updating the tables in the second edition, but by also adding new tables in each chapter. This should more fully satisfy my objective to provide, for students and the general reader, a critical review of Australia's growth experiences and economic performance. In most cases the addition of new tables has been possible because of the availability of new and/or more complete data since the second edition was completed. Special care has been taken to ensure that comparable data, where available, have been collected for the long period of just over ninety years under review. In several respects, the data have been carried back into the nineteenth century more so than previously in order to view Australia's development in longer perspective.

A table has been added in Chapter 1 to record Australia's population growth in terms of the time elapsed between the additions of successive millions of the population since European settlement began in 1788. A map has been included identifying the location of Australia's main mineral deposits and the area of Australia which is arid or semi-arid. In Chapter 2 a new table furnishes reviews from the mid-1960s of the rates of growth of labour, capital and multifactor productivity and of the inputs of labour, capital and total labour and capital. Previously, only estimates of labour productivity were available. Moreover, the estimates of labour productivity themselves in Chapters 2 and 6 have been strengthened by the addition of estimates of output per hour worked since 1974–75 as well as per worker. The estimates per worker have themselves, for comparison, been extended back from 1900–01 to 1861. There is also in Chapter 2 a more detailed analysis of Australia's business cycle since the Second World War. This is aided by a new table providing a fuller description of the duration of the phases of the business cycle and a distinction between classical cycles and growth cycles.

This book had been almost completed when the Australian National Accounts data for 1991–92 became available. These reflect the recession which began about January 1990 and became in February 1992 the longest downturn in business activity in Australia since the Second World War. The recession is reflected in a

slowdown in the trend rates of growth of real gross domestic product (as shown in Table 2.1) from 4.1 per cent a year during 1982–83 to 1989–90 to 3.3 per cent a year during 1982–83 to 1991–92. The prospect is for a slow and uneven recovery in the Australian economy in the coming months.

In Chapter 3 there are five additional tables dealing with: the major birthplace groups of Australia's population; crude birth rates and total fertility rates of low fertility countries; marital status of the population aged fifteen and over by sex; the child-dependency ratio and the old-aged-dependency ratio; and school retention rates to final year in Australia in comparison with the United States, Canada and Japan. There is also an expanded table showing new aspects of average issue. In Chapter 4 the tables allow for changes in the classification of exports and a new table highlights the recent major shifts in the direction of Australia's exports by region, notably the expansion of exports to the newly industrialized countries and other East Asian countries.

A major new feature in Chapter 5 has been the inclusion of tables analyzing the size and age of Australia's capital stock since 1967. More detailed information is now available on the foreign ownership and control of the Australian economy by industry/activity and the country of ownership and control. In Chapter 6 the analysis of concentration and competition in the manufacturing sector has been strengthened by the inclusion of data, firstly, on the percentage contribution of the 200 largest enterprise groups; and secondly, on the concentration ratios by industry subdivision for employment and turnover for the largest enterprise groups. In the discussion of the development of manufacturing industry a detailed critical review is made of Australia's dependence on tariff protection. A new table illustrates, firstly, the size of the nominal and effective rates of assistance on outputs for groups of manufacturing industries since 1968–69, and secondly, the projected considerable reductions in the rates of assistance when the March 1991 programme of industry policy is completed in the year 2000. Two other new tables in Chapter 6 highlight more fully, firstly, the largely endogenous basis of Australia's imports and the general structure of imports as illustrated by the import penetration ratios; and secondly, the significant shift in the sources of Australia's merchandise imports by major country groups since the early 1960s away from Europe to Japan and other newly industrialized countries of Asia.

In revising and updating Australia's institutional developments in Chapter 7, there are nine new tables. Seven of these deal with Commonwealth–state financial developments. One exhibits the shares of each level of government—Commonwealth, state and local—in terms of financial aggregates and employment. Another identifies the sources of revenue of each level of government; another the size of the public sector's net capital stock as a proportion of GDP. The remaining four new tables in the section on Commonwealth–state relations illustrate aspects of the growth in the size of Australia's public debt in the 1980s. One of these tables also traces the changing size of net public debt of each level of government in Australia from 1926–27 to 1989–90. The remaining two new tables in Chapter 7 aid the analysis of the changing structure and activities of Australia's financial institutions: one records the changing shares of the main financial institutions in the total assets

of financial institutions from 1953 to 1991, and the other exhibits the changing number of financial institutions in Australia during the deregulation of Australia's financial system in the 1980s and early 1990s. The revision of section 4 of Chapter 7 on 'wage determination' entailed especially examinations of, firstly, the challenges to the systems of compulsory arbitration and centralized wage fixation, and secondly, the general principles of wage determination, with a critical review particularly of the application of wage indexation in Australia during periods of the 1970s and 1980s.

I wish to thank the Economic Society of Australia for permission to reproduce, in Chapter 7, parts of my article on 'Australian Industrial Relations Law and Systems and the "Public Interest": Review Article of Hancock Report' from the *Economic Record*, vol. 62, no. 176, March 1986.

In Chapter 8 there are six new tables. Three of these assist a more detailed analysis of the nature of and changes in income distribution in Australia, while two provide historical evidence for a fuller discussion of wealth distribution. The other new table in Chapter 8 permits an international comparison of living standards in Australia and other OECD countries. There is one new table in Chapter 9. This illustrates the important phenomenon of a secular rise in the unemployment rate in Australia and other industrial countries from the 1960s to the early 1990s. Since the twin problems of inflation and unemployment matter a great deal, special attention is given to understanding them and to the search for policies to control them. A new chart aids this analysis by illustrating two things: firstly, the changing levels of profitability of trading enterprises; and secondly, the fluctuations in the levels of real earnings and wages.

I am most grateful to a number of people who have helped in the revision of this book. I wish especially to thank the Giblin Research Librarian, Ms Shirley Sullivan and her Assistant, Ms Lynne Horwood, for cheerfully aiding in obtaining source material; and Mr David Johnson for valuable comments on the whole draft of the book, and Professor J.E. Isaac for doing so on section 4 of Chapter 7 on 'wage determination'. Dr V.L. Martin kindly helped with computer programming. Ms Sherl Au Fung Hing very efficiently undertook the typing of several drafts of the manuscript. Finally, I again owe a special thanks to my wife for her loving assistance and constant encouragement.

*E. A. Boehm*  
*September 1992*

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